



TRENDS IN
LEGAL TERMS IN
VENTURE
FINANCINGS IN
ISRAEL
H1 2020 SURVEY

S H I B C L E T
L A W F I R M

We are pleased to present the results of our survey for the first half of the year 2020, which analyzes legal terms of venture capital (VC) investments in Israeli and “Israeli related” hi-tech companies, and comparing these terms to those common in the Silicon Valley, United States.

As always, this survey was produced in collaboration with Fenwick & West LLP., one of the leading Silicon Valley law firms. Our cooperation with Fenwick & West in producing this survey enables us to also present an interesting comparison, using the same tools and terminology, between the terms commonly practiced in Israel and those commonly practiced in the Silicon Valley.

CONCLUSIONS

The results of the survey for the first half of 2020, which relates to financing rounds that transpired prior to the outbreak of the COVID-19 Pandemic as well as to rounds which took place during the pandemic, were mixed and a little surprising.

Unlike the effects observed in previous crises that affected the industry, the rate of new companies in which the funds invested was not reduced, and maintained a rate similar to the rates observed in 2019. This was observed in our survey results as well as in the survey results in Silicon Valley.

Other surveys published for the first half of the year 2020 also indicated that the fund raising of high-tech companies were not adversely affected. The prevailing explanation for thus has been that the current crisis “caught” the VCs after they had raised capital and were flush with cash so that after a quick recovery and adjustment to the circumstances –VCs concluded that, for the moment, there was no urgency to restrict investment only to their existing portfolios, and they continued investing in new companies.

At the same time, as with previous crises, the initial reflection of a crisis, expressed in the Company valuations, was also observed following the outbreak of the COVID-19 Pandemic – where in Silicon Valley the rate of down rounds doubled (from 7% to 14%), and here in Israel the rate of down rounds increased from 9% to 14%!

As expected, in contrast to Silicon Valley, in Israel, harsher conditions were observed, as a consequence of risk assessment in assessing company valuations, hence a steep rise (79% of rounds surveyed!) was observed in the use of senior liquidation preferences. This finding is interesting to note, considering that our 2019 survey actually observed a decrease in the use of senior liquidation preferences, to 51% – the lowest rate observed in our surveys! In Silicon Valley, however, the rate of use of senior liquidation preferences continued to drop to only 19%.

The rate of use of “participation rights” of the preference shares, which in 2019 dropped precipitously to a mere 16%, witnessed a dramatic increase and was applied in a quarter of the rounds surveyed.

In addition, a slight increase in the rate of the use of multiple liquidation preferences was observed both in Israel and in Silicon Valley. The use of multiples is another expression of decreasing valuations, as it gives investors economic value in distributions at a higher rate than their share in the company, thus constitutes a form of compensation to the investor for the risk incurred in attributing a higher valuation to the Company.

It is interesting to note that alongside the increase in the rate of use of multiple liquidation preferences, we observed a decrease in the rate of use of accruing interest and cumulative dividends – both of which are forms of multiples, as over time the preference amount accrues interest and thus multiples. Our survey observed a dramatic decline in the use of accruing interest and cumulative dividends to 5% - the lowest rate ever observed in our surveys. This trend may indicate a conformity with the conditions prevailing in the Silicon Valley, where traditionally the rate of use of these terms are in the single digits. That said the rate of usage of these terms should continue to be monitored.

The results observed in this survey do not appear to constitute a complete indication to the effect the crisis has on the industry, since a portion of the rounds surveyed transpired prior to the onset

of the pandemic and it observes rounds that took place while VCs had plenty of available capital from money recently raised.

The results observed in this survey do not appear to indicate a total crisis in the industry, as a portion of the rounds surveyed transpired prior to the onset of the pandemic and it observes rounds that continued to take place while VCs had plenty of available capital from money recently raised. In addition, there are stock markets which are bubbling over with excitement and significantly impacting the private investment ecosystem and it will be interesting to see how the industry will carry on throughout the remainder of the year, especially following the U.S. elections in November.

We hope that you find this survey useful and interesting.

To be included in our email distribution list for future editions of this survey, please go to www.shibolet.com.

To receive a copy of the Fenwick & West Venture Capital Survey summarizing venture capital terms in the Silicon Valley, please go to www.fenwick.com/vctrends.htm.

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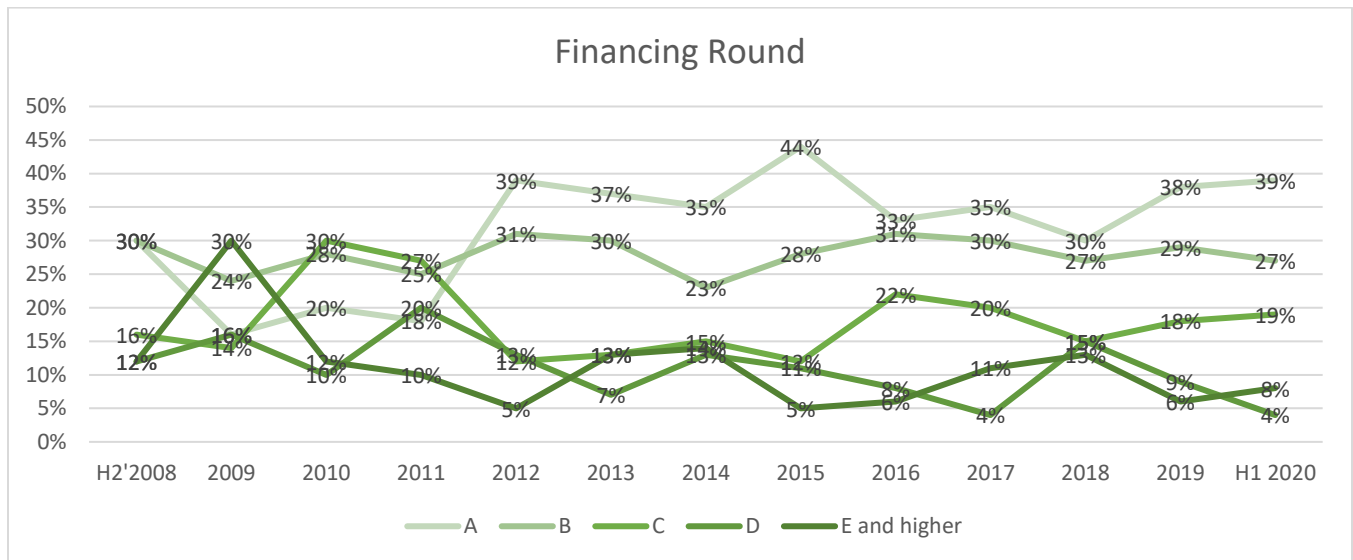
Trends in Legal Terms in Venture Financings in Israel H1 2020 Survey

BACKGROUND

We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during the first half of the year of 2020. Our survey does not include financing rounds of less than US \$500,000. The tables below also show, for purposes of comparison, the results of our previously released surveys.

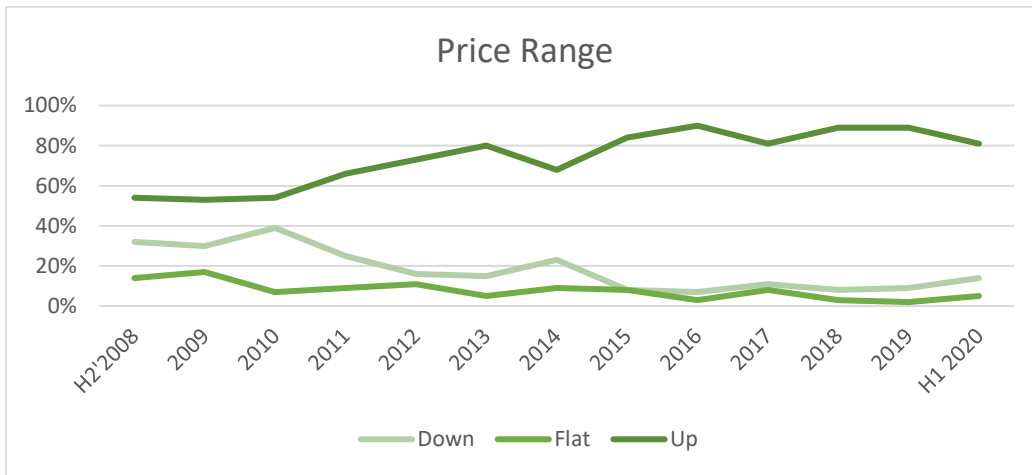
FINANCING ROUND

The financings closed in the first half of the year of 2020 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:



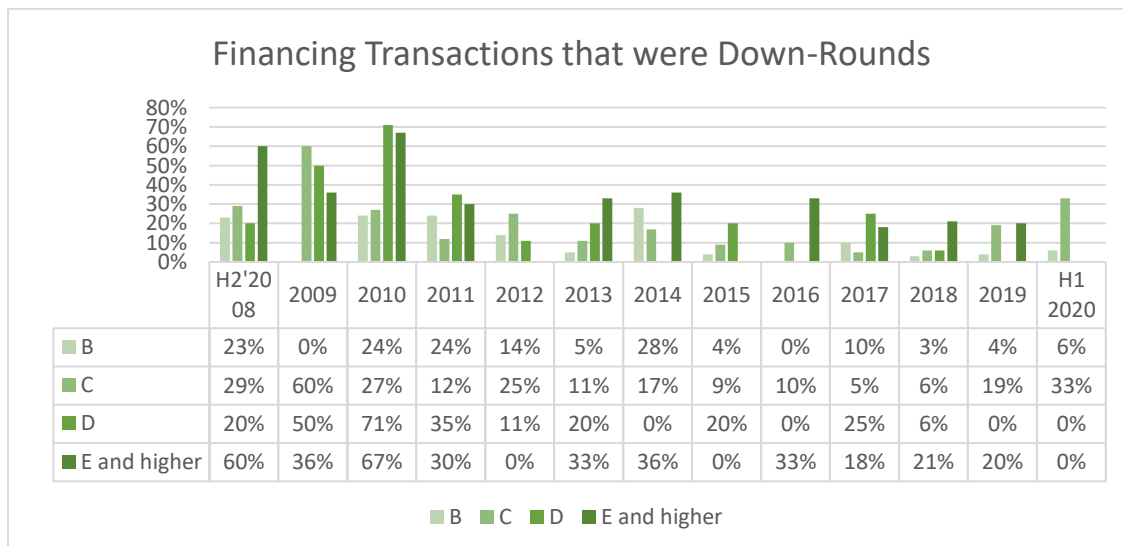
PRICE CHANGE

The financings closed in the first half of the year of 2020 and in the periods covered by our previous surveys may be broken down by the directions of the change in price as compared to each company's respective previous round, as follows:



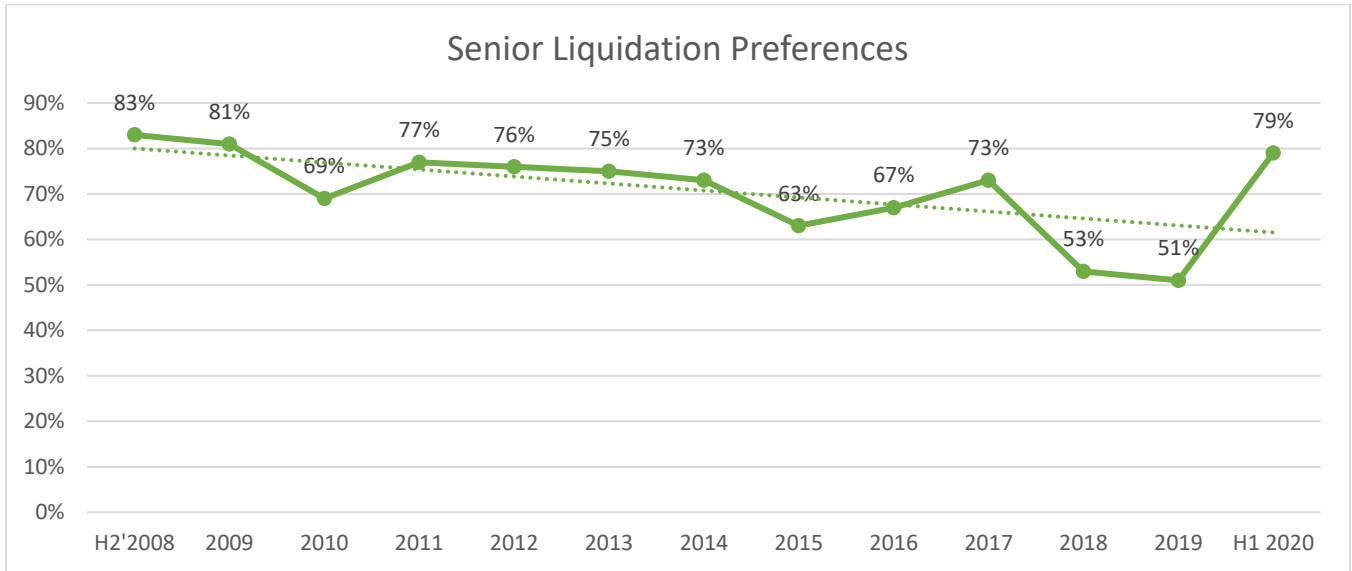
FINANCING TRANSACTIONS

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

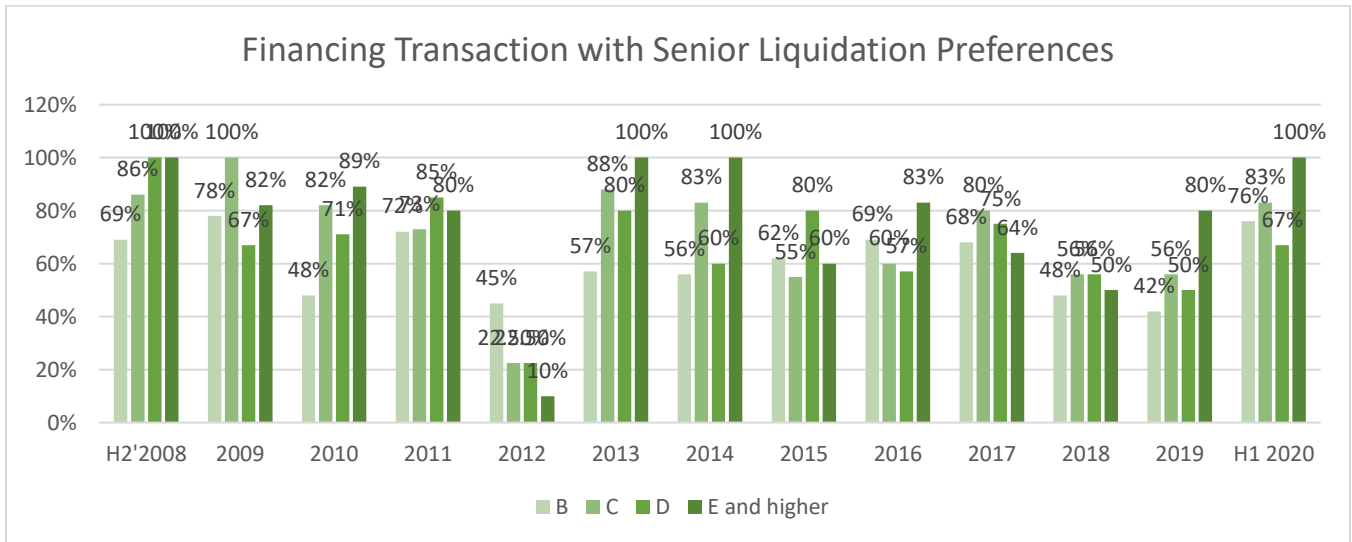


LIQUIDATION PREFERENCE

Senior liquidation preferences were used in the following percentages of financings:

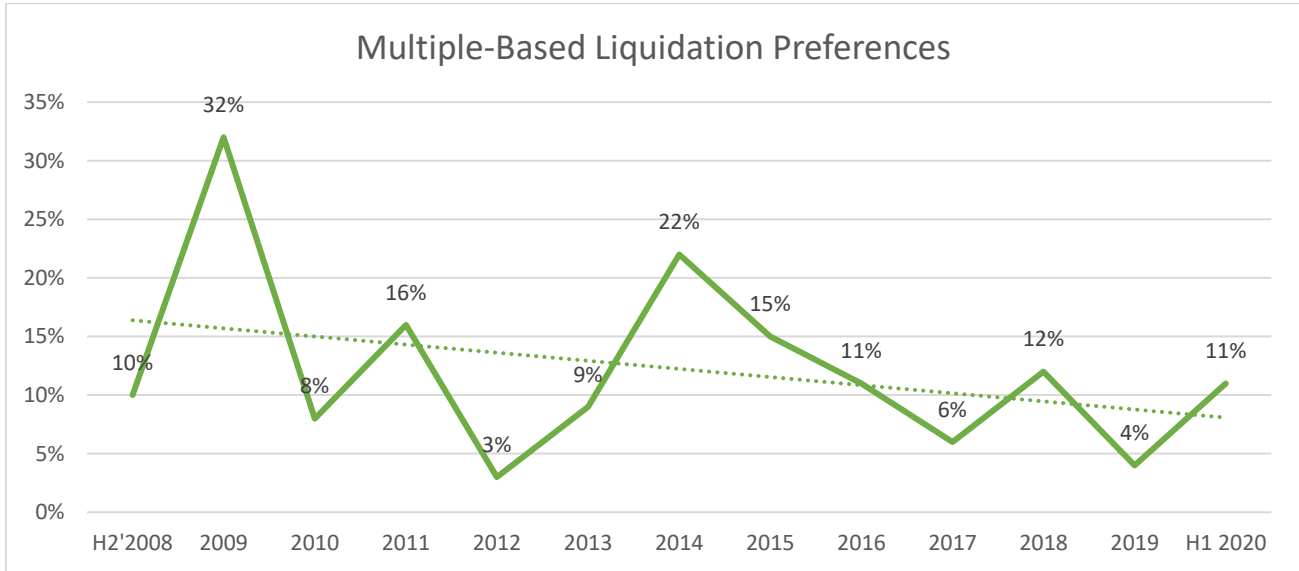


The percentages of financing transactions with senior liquidation preference, broken down by series, were as follows:



MULTIPLE-BASED LIQUIDATION PREFERENCES

The percentage of financing transactions with senior liquidation preferences that included multiple preferences was as follows:



Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

Range of multiples	H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	H1 2020
1<x2 - x	100%	75%	100%	70%	100%	100%	50%	80%	100%	67%	71%	0	75%
2<x3 - x	0%	13%	0%	20%	0%	0%	38%	20%	0%	0%	29%	100%	25%
3 <x	0%	12%	0%	10%	0%	0%	12%	0%	0%	33%	0%	0	0%

PARTICIPATION IN LIQUIDATION

The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation were as follows:

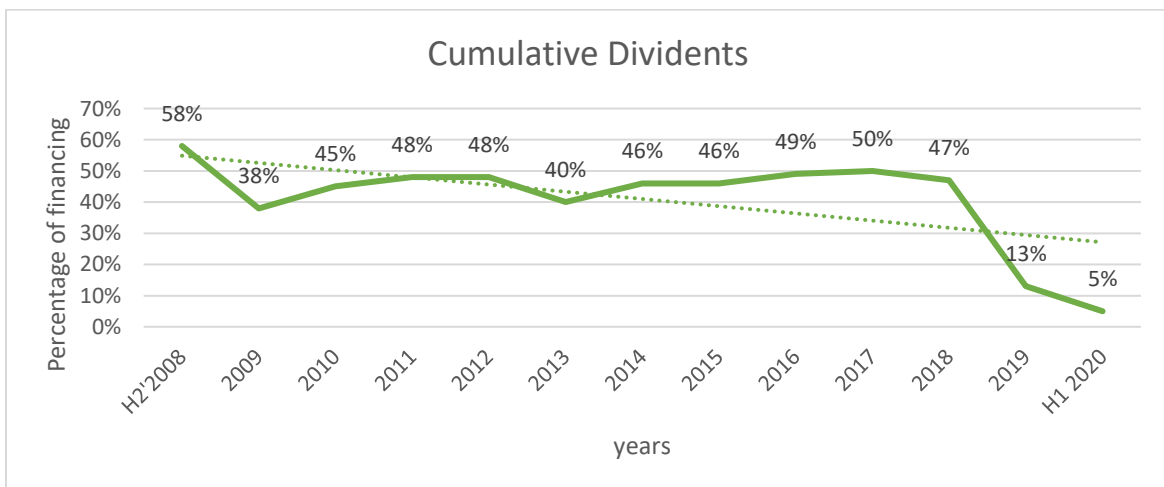
H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	H1 2020
88%	84%	72%	77%	69%	60%	54%	41%	40%	31%	30%	16%	25%

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors' right to participation were as follows:

H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	H1 2020
58%	61%	62%	59%	59%	57%	53%	55%	38%	44%	63%	43%	33%

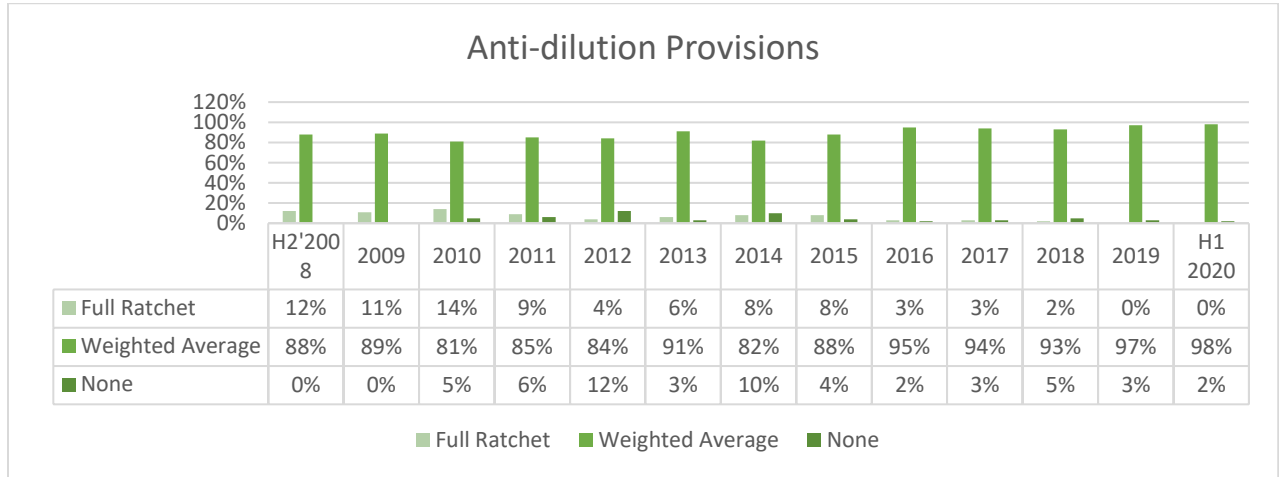
CUMULATIVE DIVIDENDS AND/OR ACCRUED INTEREST AS PART OF THE LIQUIDATION PREFERENCE

Cumulative dividends and/or accrued interest constituted part of the liquidation preferences in the following percentages of financings:



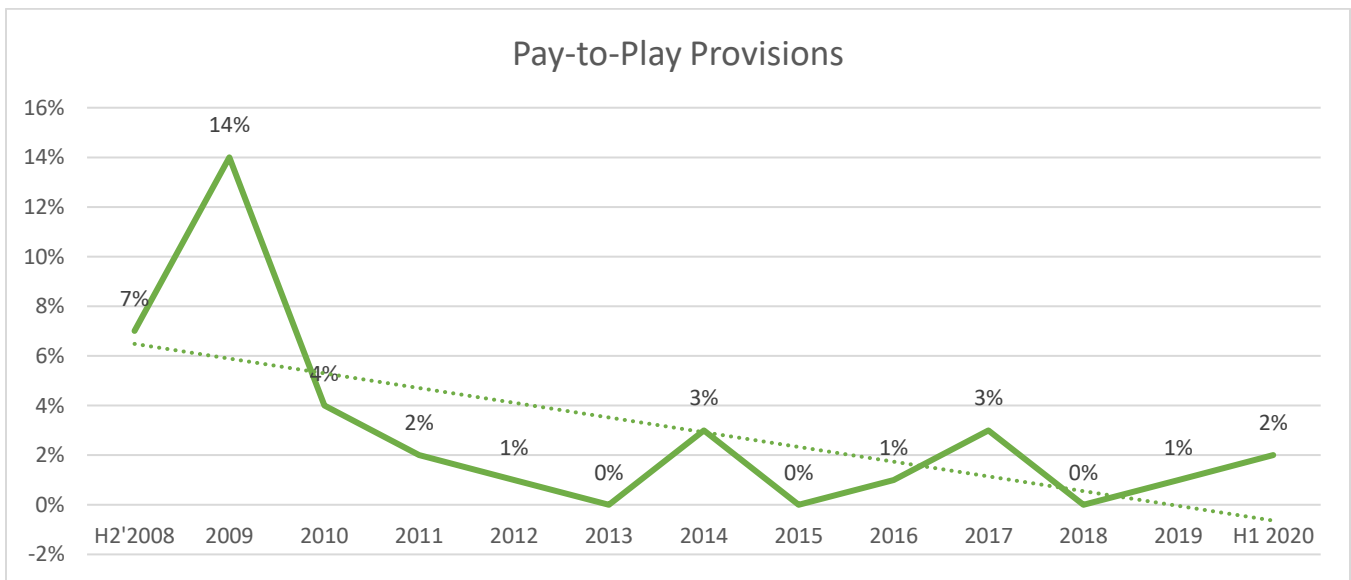
ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings which took place in the first half of the year of 2020 and in the periods covered by our previous surveys may be broken down as follows:



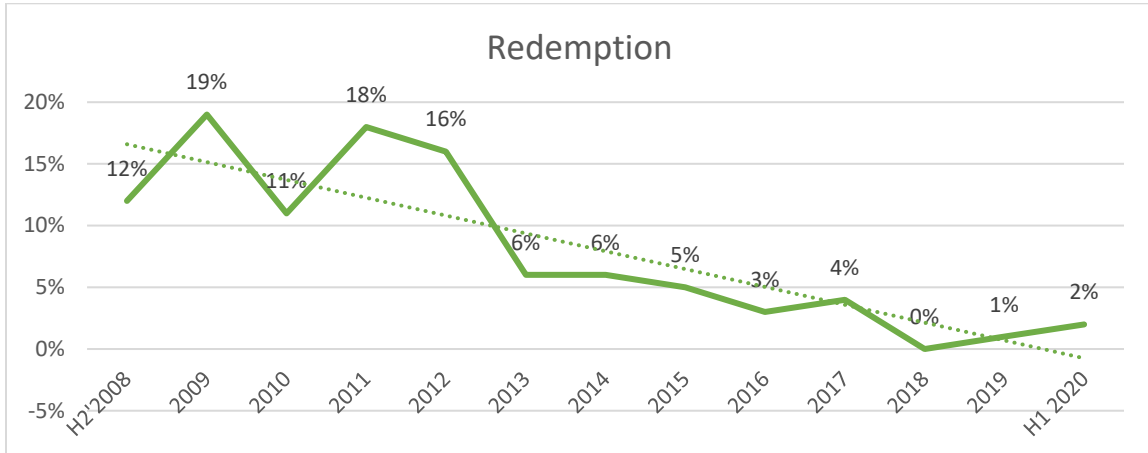
PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings which took place in the first half of the year of 2020 and in the periods covered by our previous surveys may be broken down as follows:



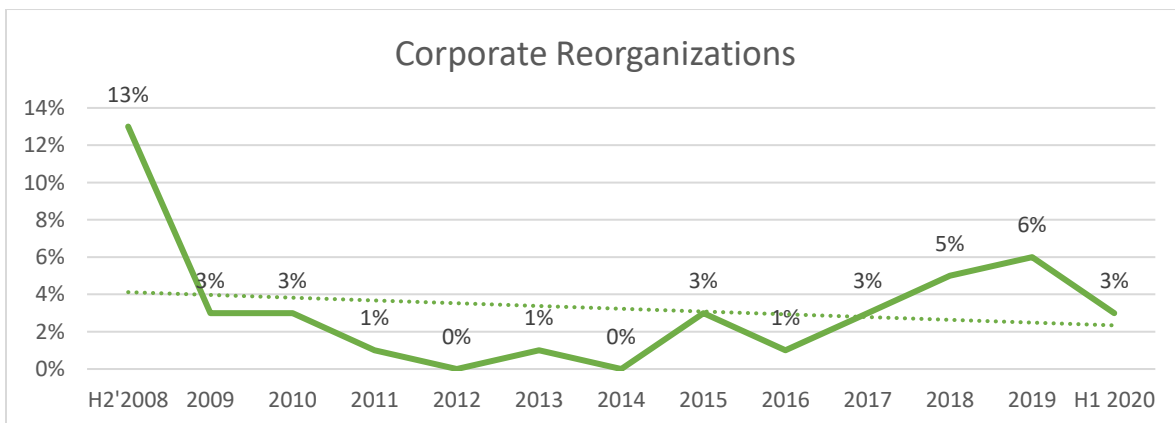
REDEMPTION

The percentage of transactions in the first half of the year of 2020 and the periods covered by our previous surveys, out of the total number of financings in each respective period, in which the terms provided for mandatory redemption or redemption at the option of the venture capitalist was as follows:



CORPORATE REORGANIZATIONS

The percentage of post-Series A financing transactions in the first half of the year of 2020 and the periods covered by our previous surveys, out of the total number of financings in each respective period, which involved the conversion of senior securities into more junior securities was as follows:



Analysis of Legal Terms of Venture Financings of Israeli Companies and a Comparison of Those Terms with the Terms of Venture Financings in the Silicon Valley H1 2020 Survey

BACKGROUND

We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during the first half of the year of 2020, and compared those terms to the terms of venture financings for technology companies headquartered in the Silicon Valley (the San Francisco Bay Area) that reported raising money in the same period.

FINANCING ROUND

The Israeli financings may be broken down according to type of round as follows:

Series A – 39% (compared to 32% in the Silicon Valley)

Series B – 27% (compared to 22% in the Silicon Valley)

Series C – 19% (compared to 18% in the Silicon Valley)

Series D – 4% (compared to 11% in the Silicon Valley)

Series E and higher – 8% (compared to 17% in the Silicon Valley)

PRICE CHANGE

The financings during the first half of the year of 2020 may be broken down by the directions of the change in price as compared to the each company's respective previous round, as follows:

Price Change	Israel	Silicon Valley
Down	14%	14%
Flat	5%	11%
Up	81%	75%

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	6%	13%
C	33%	10%
D	0%	19%
E and higher	0%	19%

LIQUIDATION PREFERENCE

Senior liquidation preferences were used in the following percentages of post-Series A financings:

Israel	Silicon Valley
79%	19%

The percentages of financing transactions senior liquidation preference, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	76%	12%
C	83%	16%
D	67%	25%
E and higher	100%	27%

MULTIPLE-BASED LIQUIDATION PREFERENCE

The percentages of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

Israel	Silicon Valley
11%	14%

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

Range of Multiples	Israel	Silicon Valley
>1x - 2x	75%	75%
>2x - 3x	25%	25%
>3x	0%	0%

PARTICIPATION IN LIQUIDATION

The percentage of transactions, out of the total number of financing transactions, that provided for participation rights in liquidation were as follows:

Israel	Silicon Valley
25%	9%

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors right to participation were as follows:

Israel	Silicon Valley
33%	76%

CUMULATIVE DIVIDENDS/INTEREST ACCRUAL

Cumulative dividends or interest accruals (which is an Israeli concept similar to cumulative dividends) constituted part of the liquidation preferences under the terms of the following percentages of financings:

Israel	Silicon Valley
5%	6%

ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings were as follows:

Type of Provision	Israel	Silicon Valley
Full Ratchet	0%	0%
Weighted Average	98%	99%
None	2%	1%

PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings was as follows:

Israel	Silicon Valley
2%	5%

REDEMPTION

The percentages of financings providing for either mandatory redemption or redemption at the option of the venture capitalist were as follows:

Israel	Silicon Valley
2%	5%

CORPORATE REORGANIZATIONS

The percentages of post-Series A financings involving a corporate reorganization (conversion of senior securities) were as follows:

Israel	Silicon Valley
3%	4%